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28 October 1983

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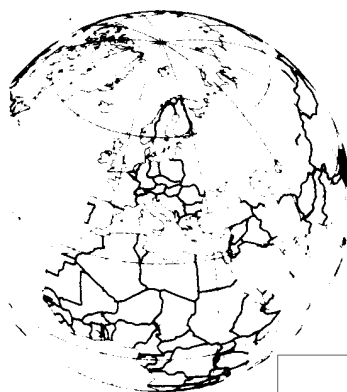


a briefing book for the DDCI's

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trip to Madrid, Lisbon, and Athens.

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**Office of European Analysis
Directorate of Intelligence**



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24 October 1983

Portugal: Talking Points for the DDCI's Visit

Since the legislative elections in June 1983, the traditional political infighting among Portuguese politicians seems to have given way to cooperation in combating the country's severe economic problems. There have been press rumors of problems between Socialist Prime Minister Mario Soares and Deputy Prime Minister and Social Democratic leader Carlos Mota Pinto, but, on the whole, the two appear to be working together more smoothly than most observers expected. Soares and President Eanes make no effort to hide their strong dislike for each other, but they too seem to have arrived at a modus vivendi. There is a sense in the country that this government (which has a two-thirds majority in Parliament) represents a last chance at making democracy work.

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No party has been able to win a majority since the first legislative assembly election was held in 1976, two years after the Revolution. After the Socialist minority government failed in 1977, it became obvious that coalitions were necessary to form viable governments. Since then, every combination (other than the present centrist coalition or a coalition including the Communists) has been tried and found wanting.

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The Communist Party is politically weak, but it still has the potential to act as a spoiler because of its control of the largest labor union (CGTP-IN). Although the Party threatened a "hot autumn" against the government's austerity program, it seems to have backed off until next year. When a day of protest rallies sponsored by the Communists on 15 October fizzled, the CGTP-IN all but admitted that a general strike is unlikely anytime soon. The Communists, however, remain committed to bringing down the government and gaining at least a share of power.

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The Soares administration has initiated a stabilization program under the IMF's guidance to cure an acute balance-of-payments problem. Under the terms of the agreement for a \$480 million standby loan, Lisbon has agreed to narrow its current account deficit from \$3.2 billion last year to \$1.25 billion in 1984, slash the budget deficit from 12 percent of GDP in 1982 to 6.5 percent by 1984, cut real wages by 4 percent, eliminate subsidies, and prune public sector investment projects. To satisfy the Fund's requirements, Lisbon will have to accept a negative rate of economic growth on the order of -1 percent both this year and next. Consequently, we expect per capita income -- already among the lowest in Western Europe -- to slide. At the same time, extensive layoffs at public sector enterprises and at financially-strapped private companies are likely to push the unemployment rate up to at least 11 percent -- a development that could enhance Communist efforts to foment labor unrest.

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[redacted]

In the foreign policy area, the government is concentrating on concluding negotiations with the United States for the use of the Lajes Air Base in the Azores and with the European Community for membership in that organization. Africa remains the region of primary interest for the Portuguese, who are trying hard to reestablish ties, including military, with their former colonies. [redacted]

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We doubt that the present political tranquility will last much beyond late next year, when campaigning will begin for the presidential election in 1985. Eanes cannot succeed himself, and politicians worry that he will draw on all parts of the political spectrum to create a personalistic party that many fear could threaten the country's pluralistic system. Soares wants to be president, but his Social Democratic coalition partners are reluctant to support him. If the Social Democrats put up their own candidate, the strains between the two parties would likely lead to the fall of the government. [redacted]

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Central America

1. Unlike Spain, Portugal does not aspire to an influential role in Latin America.

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- Since the 1974 Revolution, Portuguese governments have had no political affinity with conservative governments in the region. Portugal does not have major economic interests in Central America, and Lisbon's small diplomatic service cannot afford to staff many embassies there.
- Of the democratic parties, only the Socialists have paid close attention to Central America, largely as a result of their role in the Socialist International (SI).
- Prime Minister Soares' views are generally in tune with US Central American policy, and he has been the most vocal supporter in the SI of US positions. His experience with the Communists in Portugal made him skeptical of Sandinista credentials early on. His party has given support to Eden Pastora and others who have resisted the Marxist direction of the Sandinista leadership.
- We think the government will remain generally supportive of US positions in the region but will at times differ with Washington, in part to blunt Communist and SI charges of being too pro-American. On El Salvador, Soares appears to believe that the US has placed too much emphasis on military support as opposed to a negotiated settlement. [redacted]

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Africa

1. Apart from ties with the US, Portuguese-speaking Africa figures most prominently in Lisbon's thinking about foreign policy.

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- President Eanes has been the main proponent of strengthening ties with the former colonies, but the policy is supported by a national consensus.
- The Portuguese believe closer ties with Africa would serve both their interests and the West's generally, by helping to diminish Soviet influence in Africa.
- As a demonstration of its commitment to Africa, the Socialist government wants to host a summit of all the leaders of the former African colonies. [REDACTED]

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2. Portugal has lines to all of its former colonies, but relations with Mozambique and Angola are the most important.

- Besides providing Mozambique with technical and educational aid, Portugal signed a cooperation agreement last year that was the first step in establishing security relationships with the former colonies. Portugal agreed to sell small arms to Mozambique and to train Mozambican soldiers. Many military officers retain bitter feelings about the Africa wars, however, and sending military personnel there remains a sensitive topic. For that reason, Lisbon insists that training of African soldiers be conducted in Portugal.
- Recently, Angola and Portugal agreed to strengthen existing links in the economic, cultural, trade and industrial spheres.
- Lisbon allows UNITA representatives to conduct anti-MPLA propaganda activities in Portugal which sometimes strains relations between Angola and Portugal.

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3. Lisbon will be hampered in intensifying its relationship with its former colonies by its scarcity of resources and by the ties those countries have with the East.

- Portugal's severe economic situation prevents it from providing much financial assistance. Lisbon is attempting to set up arrangements under which another country would finance the projects and Portugal would provide the manpower and technology. The US and Portugal are presently talking about possible areas for joint ventures.

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Mozambique President Machel's recent trip to Lisbon convinced Soares that Machel cannot act independently of the Soviets and dampened Soares' optimism that Mozambique can be weaned away from Moscow anytime soon. [REDACTED]

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INF

1. Lisbon has been a consistent supporter of NATO's 1979 dual-track decision to deploy new intermediate-range nuclear missiles.

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- In recent weeks both Prime Minister Soares and Defense Minister (and Vice Prime Minister) Mota Pinto have publicly reaffirmed their support for deployment unless the Soviet Union dismantles its own SS-20 missiles.

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Force Modernization

1. Portugal's armed forces remain poorly armed and unable to perform many of their NATO functions. The military has extensive equipment needs, and Lisbon looks to the US to take the lead on assistance.

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- Portuguese military officers want additional aircraft, artillery, armor and new frigates. Lisbon's use of existing security assistance programs has been hampered by poor military management and domestic economic constraints.

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Status of Base Negotiations

1. Lisbon wants to wrap up negotiations on renewal of the base rights agreement with the US, and the talks are making progress. Some obstacles remain to be worked out at the political level.

- Lisbon believes it receives insufficient compensation from the US in return for use of the strategic Azores facilities. The military has pressed the hardest for greater compensation and has framed its requests for a "special deal" in terms of specific equipment it wants from the US. The armed forces now appear to be moving toward acceptance of Washington's offer

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- Lisbon has shown some flexibility on US requests for a single, ten-year agreement, and is amenable to a broad accord governing both the Azorean facilities and the siting of a deep space surveillance station in Portugal.
- Major differences between the two sides center on questions of sovereignty. Portugal is reluctant to apply the NATO Status of Forces Agreement to the Azores, because it limits national jurisdiction. Negotiations have yet to settle on the terms under which the US would be able to use Portuguese territory for transit to operations outside the NATO area.

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27 October 1983

Greece: Talking Points for the DDCI's Visit

After more than two years in office, Prime Minister Papandreu's personal popularity remains relatively high -- although political opposition has started to intensify as the Prime Minister has begun to grapple with Greece's stubborn economic problems and key foreign policy issues. Papandreu has tried to retain centrist support by pursuing cautious policies at home. At the same time, he is striving to keep his left in line by promising to follow through ultimately on his program of social reforms and by distancing himself from common Western positions on a number of important foreign policy issues. So far, the Prime Minister has managed well his relationship with President Karamanlis and the Greek military, whom he perceives as key constraints on his government's authority. [REDACTED]

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The state of the economy remains as much an Achilles' heel for the Panhellenic Socialist Movement (PASOK) government as it was for its predecessor. Expansionary fiscal and wage policies have worsened an economy now plagued by swollen budget deficits, high rates of inflation, stagnant investment, a deteriorating balance of payments, and growing unemployment; budgetary stringencies have limited the government's ability to implement its program for restructuring the economy and social reform. Defections from PASOK ranks to the left in last year's municipal elections, fought largely on local and domestic issues, reflect nascent, but increasing, disenchantment with the nature and pace of promised economic and social change. If Papandreu is to stem Greece's economic decline, more restrictive -- and unpopular -- economic measures are inevitable. [REDACTED]

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In foreign affairs, we do not expect Greece fundamentally to alter its ties with the West. But the price of Greek participation in NATO and the European Community will be continued tolerance of an ally who is prepared to break ranks with the consensus when it serves Greek interests. A new accord on the US bases was initialed last July -- and will be debated in Parliament this month. US-Greek bilateral relations have improved as a result of the agreement -- although, to appease the left, Papandreu is likely to continue asserting that the bases are incompatible with Greek sovereignty and portraying the accord as a timetable for their removal. Meanwhile, Greek-Turkish differences, no doubt, will continue to dominate Greece's relations with Western Europe and the United States. [REDACTED]

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The ability of the United States and Western Europe to influence Greek affairs will remain strong given Greece's extensive economic and military dependence on the West. The potential for US influence will be limited somewhat, however, by the mercurial temperament of the Greek leader. Having managed in office to temper the image of strident radical that characterized his preelectoral posture, Papandreu is capable of reversing the process if he feels he has failed in his effort to focus US and Alliance attention on Greek concerns or if his position domestically would benefit from a stance that was anti-American, anti-NATO, or increasingly bellicose toward Turkey. [REDACTED]

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Foreign Policy

1. At midterm, Papandreou's foreign policies are no more predictable or coherent than when his socialist government took office in October 1981. So far, the Prime Minister has relied on a mixture of pragmatic actions and inflammatory statements. In our judgment, PASOK's foreign policy will continue to feature two basic tenets: 1) Greece will remain firmly anchored to the West, maintain its membership in NATO and the EC, and allow the continued operation of the US bases; 2) At the same time, the government -- for reasons of domestic politics and ideology -- will continue to depart from commonly-held Western positions on international issues, to pull out of specific NATO exercises to highlight its concerns about Greek-Turkish disputes, and to flirt with the Third World and, on occasion, the Soviet Union.

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2. **Greece and the United States.** Last July the US and Greece finally reached agreement on a new Defense and Economic Cooperation Agreement (DECA). Parliamentary debate on the DECA this month will be lively, but we expect Parliament to ratify it within the next month or two.

- The DECA satisfies Athens's requirement for an overall political framework. However, operations at the bases will continue under the terms of existing arrangements until they are modified or terminated by mutual agreement.
- With a strong majority in Parliament, Prime Minister Papandreou will have little trouble securing approval of the agreement. During the debate, however, he may find it necessary to respond to critics in ways that could raise tensions with the US. He may again claim, for example, that the accord constitutes a timetable for removal of the bases and that language on maintaining a balance in the region reflects a US commitment to abide by a 7-to-10 ratio in military aid to Greece and Turkey. He also is likely to emphasize that the DECA provides for strict oversight of US operations and prevents the US from using the bases against Middle Eastern countries with whom Greece maintains friendly relations. In fact, the duration clause in the Greek DECA is similar to articles contained in US base agreements with other countries; it allows either party to terminate the agreement after five years, but only upon written notification.
- The conservative New Democracy Party almost certainly will vote in favor of the agreement. At the same time, it will criticize the text by pointing to areas in which the agreement is less favorable to Greek interests than draft texts negotiated during its tenure in power. Only the Communists are likely to vote against ratification. So far, however, their antibase demonstrations have been poorly attended, and they appear to have been unsuccessful in attracting hoped-for support from the non-Communist left.
- Day-to-day bilateral relations have improved somewhat since the initialing of the DECA. The government, for example, has responded favorably to US requests for routine port calls by vessels of the Sixth Fleet, whereas similar requests had been denied shortly before the conclusion of negotiations.

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3. **Greece and NATO.** Greece withdrew from the military wing of NATO in 1974 to protest the Turkish invasion of Cyprus. After strenuous negotiations with the Allies -- in part aimed at developing a framework for reintegration that would overcome Turkey's objections to Greece's reentry -- Greece rejoined NATO in 1980. More than his predecessors, Papandreou has adopted an aggressive stance in NATO forums in an effort to make the Alliance more responsive to Greece's security interests, particularly its fear of Turkey.

-- Until Greece's withdrawal from NATO, Alliance command and control responsibility in the Aegean fell to Athens. Under the reentry plan, command and control responsibility in the Aegean was assigned to the Commander-in-Chief, Allied Forces, Southern Europe, pending the resolution of the disputes between Greece and Turkey. Greece is seeking to regain its pre-1974 responsibilities, while Turkey is pressing for some formula that would allow for joint control. The lack of progress on the issue reflects each side's concern that an agreement might prejudice its other claims in the Aegean.

-- Papandreou is prepared to withdraw from NATO exercises -- as previous Greek leaders have done on occasion -- when he feels that participation would prejudice Greek claims in the Aegean. In two major Aegean exercises this year, Papandreou withdrew his forces at the last moment when the Alliance refused to include the Greek island of Limnos. (Turkey disputes the legality of military activity on Limnos.) In the most recent case, NATO apparently agreed informally to Greek requests for "free play" maneuvers on Limnos in conjunction with the main exercise, if Athens would refrain from drawing public attention to the maneuvers. Subsequent Greek publicity of the decision produced a Turkish counter-reaction, causing NATO to cancel the "free play" portion of the exercise. As a result, Athens ultimately withdrew from the exercise.

-- Greeks across the political spectrum are extremely sensitive to what they perceive as a NATO tendency to tilt in favor of Turkish interests. Although elements of the center and right sometimes are upset by Papandreou's manner of handling NATO-related issues, they strongly support his objective of protecting Greek interests vis-a-vis Turkey.

4. **Greece and Turkey.** Tensions in Greek-Turkish relations since the early 1970s stem largely from a tangled web of conflicting claims in the Aegean that touch on Greek and Turkish national security interests. Greeks across the political spectrum see Turkey as a growing regional power with designs on Greek territory, particularly in the Aegean. For their part, the Turks believe that Greece is seeking to preempt what they view as legitimate Turkish rights in the area -- a perception intensified by the election of Andreas Papandreou as Greek Prime Minister in 1981. On occasion, the Greek and Turkish Governments have each raised the level of tensions. Papandreou's rhetorical flourishes have tended to reinforce Turkish perceptions of an intransigent Greece. Similarly, Ankara's periodic penetrations of Greek-claimed airspace have tended to confirm Greek perceptions of an aggressive Turkey. At present, both parties appear intent on preventing minor incidents from mushrooming into open conflict, and in recent months they have taken

tentative steps to renew the Greek-Turkish dialogue on outstanding Aegean issues.

- Continental shelf rights: Greece maintains that its inhabited islands have their own continental shelves -- a view bolstered by international conventions. Turkey argues that many of the Greek islands lie on the Anatolian shelf, and it demands an equal share in the economic exploitation and distribution of the Aegean's seabed resources -- an issue made more urgent in Ankara's eyes by the discovery of oil there in the early 1970s.
- Territorial waters: Greece's territorial waters currently are set at six nautical miles, but Athens reserves the right to extend its boundaries to twelve nautical miles. Ankara argues that this would cut off Turkey's direct access to international waters and has made known that such an extension would constitute a casus belli.
- Airspace and air traffic control: Since the early 1930s, Greece has claimed an airspace of ten nautical miles around its islands, and it has international sanction to supervise all civilian flights in the Aegean. Athens has insisted that all Turkish aircraft entering its Flight Information Region file flight plans. Turkey recognizes an airspace of only six nautical miles around the islands and, like the United States, refuses to file plans for military flights, claiming that such flights do not affect safety in the area and therefore do not come under the provisions governing commercial air traffic.
- The militarization of the Aegean islands: Greece claims that the right of national self-defense overrides any treaty provisions -- which, in any case, the Greeks regard as equivocal on the issue -- providing for the demilitarization of its Aegean islands. It justifies the upgrading of its defenses on the islands by pointing to the Turkish invasion of Cyprus and the creation after 1974 of the Turkish Aegean Army based in Izmir. Turkey argues that the treaties under which the islands were ceded to Greece dictate that they remain demilitarized.
- Minorities: Greece and Turkey periodically accuse each other of discriminating against the ethnic communities living under their respective jurisdictions. Greece's Muslim minority resides primarily in Thrace -- close to the Turkish border -- and on the island of Rhodes. The ethnic Greeks in Turkey live primarily in Istanbul and Izmir and on the islands of Imbros and Tenedos. Each side accuses the other of failing to respect the safeguards for minority communities outlined by the 1923 Treaty of Lausanne.
- Cyprus: Although not strictly a bilateral issue, the unresolved Cyprus problem has exacerbated the disputes in the Aegean. Greece points to the Turkish invasion of Cyprus in 1974 as proof of what it views as Ankara's aggressive intentions and has called for the withdrawal of Turkish troops as a precondition for meaningful negotiations between the two Cypriot communities. Turkey claims that it was the Athens-inspired coup against then President and Archbishop Makarios that prompted its intervention and that, as one of the

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original treaty guarantors of Cypriot independence, it had the right to intervene in order to protect the constitutional order. Ankara also argues that it must maintain a military presence in order to protect the Turkish Cypriot minority pending an acceptable resolution of intercommunal differences. [REDACTED]

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5. Greece and the Soviet Union. Moscow no doubt views Papandreou's positions on disarmament and East-West cooperation -- as well as his at times obstructionist behavior within the Western camp -- as a windfall. There is little to indicate what Papandreou has gained or hopes to achieve through closer relations with the Soviets. We suspect, however, that he is attempting, in part, to mute Communist opposition to his government and to demonstrate a measure of "independence" from the West after having reneged on early campaign promises to withdraw from NATO, remove the US bases, and take Greece out of the EC. We expect him to continue his independent stance whether or not he is able to parlay any significant economic or political benefits from Moscow.

-- On several occasions Athens has taken positions that work against allied consensus on important international issues. Moscow almost certainly was pleased, for example, by Greece's refusal to go along with Western sanctions against the Polish martial law authorities. More recently, Athens refused to agree to a sternly worded EC condemnation of the Soviet Union for its shooting down of the South Korean airliner. And much to the chagrin of its Allies, the Greeks advanced a controversial proposal last month for a six-month delay in the basing of intermediate nuclear range missiles in Western Europe.

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-- [REDACTED]
[REDACTED] Greek Communist Party (KKE) not to confront the government. Thus, the KKE has avoided violent demonstrations and sharp denunciations of the Socialists and has cooperated with PASOK trade union officials and "peace" movement leaders.

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-- Despite a loudly trumpeted economic protocol signed during Soviet Premier Tikhonov's visit to Athens last February, prospects for significant trade relations between Greece and the USSR are not especially bright. Proposals to build a natural gas pipeline and complete an aluminum plant appear impractical and expensive, while proceeds from Soviet purchases of Greek agricultural products have been modest. Neither has the Greek decision to resume the repair of Soviet naval auxiliary vessels, or Greece's contracts to service Soviet freighters, proved to be of significant commercial value.

-- Moreover, Moscow has shown no sign that it is willing to move closer to the Greek side in the Aegean dispute with Turkey or on the Cyprus issue. [REDACTED]

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The Domestic Scene

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1. Papandreou is in a strong position domestically, but he must constantly balance conflicting demands and pressures from across the political spectrum and from within his own party and the government. [redacted]

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[redacted] some members of Papandreou's entourage are counseling him to hold early elections in the spring of 1984 -- primarily because they expect economic conditions to worsen over the next two years. [redacted]

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[redacted] however, Papandreou is standing firm on his decision not to hold elections until his mandate runs out in the fall of 1985.

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- Papandreou reserves all important decisions for himself and gets heavily involved in the day-to-day details of running the government, especially in the area of foreign policy. His cabinet is inexperienced, and he sometimes has complained about the lack of coordinated planning and the slowness of ministers in preparing major legislation. There has been only one major cabinet shakeup (in the summer of 1982), although two cabinet-level officials whose responsibilities included the economy have resigned in the past several months.

There are tensions within the government between moderate and left wing ministers. Most of Papandreou's key advisers on foreign policy, defense, and the economy, however, are pragmatists and/or technocrats. Occasional complaints surface about party loyalists called "Green Guards," who try to monitor performance in some ministries, but Papandreou reportedly has ordered them to stop such interference. Despite these internal divisions, Papandreou remains in firm control of his party and government.

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The Prime Minister and President Karamanlis do not see eye-to-eye on specific issues, but [redacted] in general Karamanlis is satisfied with the broad outlines of Papandreou's foreign policy and that the two have a generally good working relationship. Karamanlis is kept informed and is consulted on sensitive issues such as military and defense policy, relations with Turkey, the Cyprus problem, and Greek-US relations. In fact, Papandreou has relied on Karamanlis on occasion to help reduce tensions between Greece and Turkey.

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[redacted] Most officers probably would give Papandreou a mixed rating in his performance thus far. There is every reason to believe the officer corps approves of Papandreou's decisions to increase military benefits and to adopt a tough line with Turkey. At the same time, it tolerates -- and probably will continue to tolerate -- the Prime Minister's tactics toward the US and NATO as long as his actions do not significantly damage security relations with the West. On issues that could affect the composition and orientation of the military, however, we believe the officer corps will continue to be suspicious and nervous -- especially if it perceives increasing leftist influence in the armed services. So far, Papandreou has remained within the bounds of acceptable action tacitly set by the military. [redacted]

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- The pro-Moscow Communists are disappointed -- but not surprised -- by Papandreou's failure to implement his more radical foreign policy campaign promises.

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- The conservative New Democracy Party, the second largest party in parliament, is divided and disorganized. Party leader Averoff has not been able to inspire the rank and file. Karamanlis reportedly believes New Democracy is not yet in a position to orchestrate an effective opposition and worries that its poor showing will tarnish his own image. He is pessimistic about the party's electoral prospects.

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27 October 1983

Spain: Talking Points for the DDCI's Visit

Felipe Gonzalez and his Socialist Party won a landslide victory in the legislative elections in 1982 (202 of 350 seats) by campaigning on a centrist platform that drew support from moderate constituents. After eleven months in power, Gonzalez shows every sign of holding to the moderate course he charted shortly after taking office. Many of the Socialists' domestic goals -- curbing terrorism, strengthening public education, reorganizing the military, and completing the regional autonomy process -- involve long term programs, and Madrid is tackling them slowly and deliberately. [REDACTED]

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In dealing with Spain's economic problems, the Socialists are following conservative policies aimed at lifting the economy out of a five-year slump. Madrid reckons that if it can achieve an average rate of real GDP growth of about 3 percent over the next three years, it can make some headway in lowering its 17-percent unemployment rate. The high level of unemployment may prompt calls by the Communists and some labor unions to reflate the economy, but we think Gonzalez is strong enough to resist. Since exports must provide most of the impetus for economic growth, Madrid has focused its export promotion campaign on the US rather than Western Europe, where only an anemic recovery is likely. US protective measures against Spanish exports are thus likely to draw more critical attention than in the past. Meanwhile, the Minister of Economics and Finance has blamed US monetary policy for high Spanish interest rates and sagging investment in order to deflect criticism away from domestic policies. In fact, Madrid began to boost interest rates last year as a means of stimulating capital inflows, promoting saving, and reducing inflation. [REDACTED]

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Foreign policy is still in flux. Gonzalez emphasizes that Spain is in the Western camp, but he also places somewhat more emphasis on independence than previous Spanish leaders. The government is negotiating membership in the EC, and wrestling with its status vis-a-vis NATO. Gonzalez acted on his campaign pledge and froze NATO military integration pending a referendum on the issue. He now appears inclined to remain in NATO, but faces the difficult task of convincing the majority of Spaniards who remain wary of membership. Gonzalez has made clear that failure to get into the EC would make it extremely difficult to sell NATO in Spain. Latin America and the Middle East are areas of special concern to the Socialists for historical and ideological reasons. Gonzalez's analysis of the situation in Central America differs somewhat from the US, but his public criticism is tempered by his strong desire to maintain smooth relations with the United States. Although the Spanish are pro-Arab, they are looking for a way to establish relations with Israel. [REDACTED]

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[redacted] The Prime Minister still retains a relatively large base of support, but there are signs that the honeymoon with his traditional rivals may be coming to an end. Since September, the government has clashed with the Church over abortion and education reform, heard grumblings from the military over continuing terrorism and government meddling in military affairs, and faced some unrest from farmers and workers (mostly Communist inspired). None of the problems are insurmountable, but they signal increased trouble ahead for a government that so far has led a charmed existence. [redacted]

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INF

1. The Socialist government avoided comment on the INF issue until last May, when Prime Minister Gonzalez visited Bonn and publicly supported deployment.

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-- Gonzalez's remarks were made in return for Kohl's agreement to support Spanish entry into the EC.

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Status of Relations with NATO

1. Despite the Socialists' opposition to NATO during the election campaign, Gonzalez has slowly come to appreciate the political and military benefits of membership and personally favors continued Spanish participation. However, he must overcome substantial political obstacles before the government can reaffirm Spanish membership in NATO. Participation in NATO's integrated military command is a more remote prospect.

-- The Spanish electorate is largely uninformed about NATO and Western defense issues, and a substantial proportion of Socialist party members oppose ties to the Alliance. We believe Gonzalez and Vice Prime Minister Guerra are pursuing a policy of deliberate ambiguity on relations with NATO, both to buy time and to enable the government to conduct an educational campaign prior to the long-promised referendum.

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-- The first test of Gonzalez's ability to sway opinion will come in October 1984 with the Socialist Party congress. He expects strong opposition from party members, and may even try to postpone the congress.

-- Next, the Prime Minister will face the referendum on NATO, which will not be held until at least mid-1985. There are signs that Gonzalez may try to blur the issue by phrasing the referendum question in an ambiguous way. In any event, he probably will not confront the issue of military integration. Gonzalez has said the essential issue is membership, and he apparently believes military integration can evolve over time. [redacted]

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2. We think Gonzalez's ability to turn the public and his party around on NATO will depend largely on where Spain's application to the EC stands at the time of the referendum.

- Talks have dragged on for four years and further negotiations have become linked to EC efforts to reform Community spending on agriculture and the EC budget in general.
- The linkage of Spain's NATO membership to its drive for EC membership presents problems for the US. For the past two years, some EC members have maintained that because it is in the US interest to have Spain in NATO and the EC, Washington should forego compensation demands for any loss of trade incurred as a result of Spain's entry into the EC.
- The political will exists within the EC to bring Spain into the Community, but even a prolonged delay could damage Spain's ties to NATO. We believe that in the unlikely event Spain fails to get into the EC, Gonzalez would have little choice but to withdraw from NATO.

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Gibraltar

3. The UK-Spanish dispute over the sovereignty of Gibraltar is also a factor in the NATO and EC equation.

- Gonzalez linked progress on Gibraltar with NATO membership early in his tenure, trying to bring Allied pressure on Britain to resume negotiations.
- The Thatcher government says that Spain cannot join the EC unless it removes all restrictions on movement between Spain and the Rock.
- The Spanish are reluctant to lift restrictions either without a guarantee that Britain will negotiate the issue of sovereignty, or before Spain joins the Community. Once in the EC, the restrictions will have to be removed.
- Resolution of the sovereignty question is unlikely in the short term, but the two governments appear to be on warmer terms recently and have decided to set up committees of experts to discuss the areas of disagreement. The talks may provide a face-saving way for Spain to open the border, thus removing one of the sticking points in the EC negotiations.

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Central America

1. Cultural, linguistic, and historical ties make Latin America an area of special concern to Spaniards.

- Spanish conservatives have traditionally put the emphasis on cultural and commercial interests.

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- The Socialists' ideologically-rooted beliefs lead them, on the other hand, to champion human rights and national liberation movements. They also believe that a more assertive Spanish-speaking bloc of nations can help end bipolarity in international politics and ease East-West tensions. [redacted]

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2. Central America has proved a vexing problem for Gonzalez, who had hoped to play a more active role in the region both to bolster support at home for his government and to burnish his credentials as an international statesman.

- Most Spaniards believe the conflicts in the area stem more from indigenous social and economic inequalities than from foreign intervention.

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- The government's interest in the area stems largely from Gonzalez's participation in the Socialist International. In addition to numerous visits to the region, Gonzalez played an intermediary role in 1981 between then Secretary of State Haig and various regional leftist groups.
- Gonzalez has called for the withdrawal of both US and Cuban military advisers and has given strong support to the Contadora peace initiative.
- The government still formally supports the Sandinistas but Gonzalez has a realistic appreciation of the situation in Nicaragua. In July Gonzalez and other European Socialist leaders sent a personal letter to the Sandinista leadership urging them to implement the original goals of the Revolution. In October, during Nicaraguan Interior Minister Tomas Borge's visit to Madrid, Gonzalez reportedly again stressed the need for democratic process in Nicaragua, and warned Borge of the perils of the Sandinistas' present course.
- Moreover, recent revelation of Basque terrorist links to the Sandinistas has created public pressure in Spain for a weakening of ties to Managua. Gonzalez reportedly may move in that direction, but he will want to avoid the impression of being stampeded by foreign and domestic pressure. We therefore doubt that he will move until the current publicity dies down. [redacted]

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3. We doubt that Spain's involvement in Central American affairs will go much beyond the rhetorical level.

- Gonzalez recognizes that an overly ambitious diplomacy could invite embarrassment. For example, he will not offer to serve as a mediator unless all the parties involved in the conflicts agree.
- He also does not want to damage Spain's carefully cultivated relations with the US. After publicly criticizing US policy during a visit to Latin America this spring, Gonzalez suggested publicly [redacted] that he would avoid getting in Washington's way in the region. [redacted]

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Terrorism

1. Many observers in Spain thought that the new Socialist government would be better qualified than its predecessors to resolve the country's terrorist problem, which revolves largely around the Basque terrorists' (ETA) 24-year-old campaign for independence from Spain.

-- The assumption was that only the Socialists, who sympathized with the anti-Franco motives of the pre-1975 ETA, could successfully negotiate with the terrorists.

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-- Gonzalez fed these hopes indirectly by citing resolution of the Basque problem as one of his government's top priorities.

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2. The optimism was soon shattered by stepped up terrorist violence that led the Socialist government to launch an all out offensive against ETA.

-- Basque Regional President Carlos Garaicoechea's attempt to bring all parties together -- the Socialists, the Basque Regional Party (PNV), and terrorist-linked Herri Batasuna (HB) -- failed when HB refused to participate unless there was live press coverage of the proceedings.

-- Garaicoechea tried to revive the discussions, but the Socialists demanded a truce with ETA before talking.

-- ETA responded with more violence, and Garaicoechea -- lambasting both the Socialists' alleged intransigence and ETA's provocations -- withdrew his offer.

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3. The government in the meantime has enjoyed some notable successes against ETA, but the recent killing of a kidnapped Army captain, following the murders of three civilians, has raised new questions about the effectiveness of the government's program.

-- Massive demonstrations were held throughout Spain on 21-23 Oct opposing terrorism and calling for tougher government action.

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-- Tension in the military is reportedly high over the incident. The military has been grumbling louder recently about the ineffectiveness of the government's program but, when pressed, admits the government is doing about as much as it can. The government is hampered by legal restrictions and lack of support from the Basque regional government (which faces regional elections next year) and France (which is a safehaven for the terrorists).

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4. Recognizing that repeated terrorist attacks against the military could spur some officers to take matters into their own hands, the government has just announced some stiffer measures.

- Interior Minister Barronuevo is asking the courts to be more aggressive in prosecuting terrorist-related offenses, including harboring, protecting, defending, or in any way showing favoritism toward terrorist organizations.
- The government will beef up security at prisons where terrorists are held.
- Security will also be improved for armed forces personnel and installations.
- Madrid is also likely to renew efforts to tighten movement across the French border to prevent Basque terrorists from taking sanctuary so easily.

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